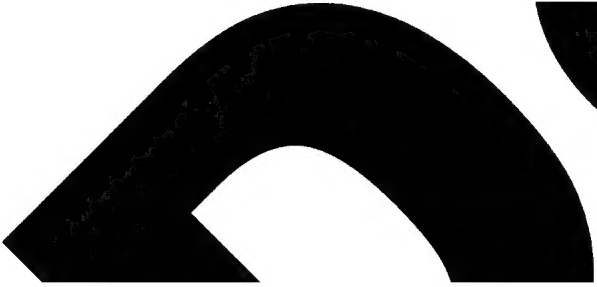



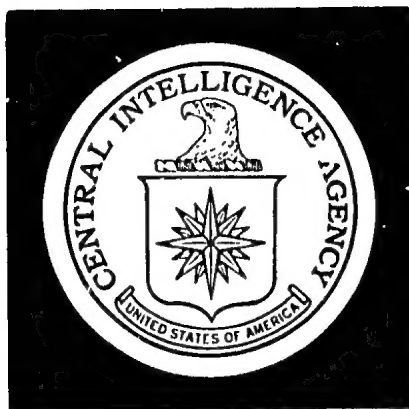


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Intelligence Memorandum

The Implications Of The New Soviet Labor Code

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ER IM 71-50
March 1971

Copy No. 45

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
March 1971

INTELLIGENCE MEMORANDUM

The Implications Of The New Soviet Labor Code

Introduction

With appropriate fanfare, a new labor code became effective in the Soviet Union on 1 January 1971. This code, officially known as the Principles of Labor Legislation, is the basic law regulating all aspects of the labor market -- hours, wages, production norms, working conditions, trade unions, social insurance, collective agreements, training, and the obligations of workers. Thus, to a certain degree, the code allegedly determines the effectiveness of the labor market, the efficiency of the use of labor, and, indirectly, the pace of economic growth. The previous code was promulgated in 1922 and had become increasingly obsolete. The new labor code represents the latest Soviet effort to provide a juridical setting for affecting an improvement in the efficiency of labor. Like other recent labor reforms, such as the Shchekino experiment, however, the new labor code is more of a change in form than in substance, emphasizing procedural modifications rather than fundamental changes in the operation of the labor market. As a consequence, the new code is not likely to be the panacea for which the regime has been searching.

This memorandum will (a) briefly discuss the role and content of the labor code and an aborted 1959 revision; (b) outline the changes in the new code and the labor problems causing these revisions; and (c) consider the labor problems not addressed by the revisions and the likely impact of the new code on the labor market and on economic growth.

Note: This memorandum was prepared by the Office of Economic Research.

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The Role and Content of the Labor Code

1. The revised labor code replaces the RSFSR code of 1922 as the fundamental legislation governing all aspects of the labor market in the USSR. The 1922 code contained the laws regarding the rights and obligations of workers, trade union's duties, and rules on wages, bonuses, production norms, working conditions, social insurance, collective agreements, and training.* The basic code -- virtually identical in all republics -- has been amended since 1922 by laws passed by the Supreme Soviet and by the decrees and orders issued by various governmental agencies. All of these laws, decrees, and instructions are designed to regulate the conditions of work for every person employed in a state enterprise or institution.**

2. The 1922 labor code not only contained specific workers' rights -- such as the right to work, to union membership, to retirement, to medical care, and to training -- but also cited detailed obligations. These obligations have been used by subsequent regimes to effect absolute control over the labor force and to impose centrally determined priorities irrespective of popular choice. Moreover, workers' rights, although specifically defined, have been virtually meaningless because of the lack of independent judiciary and trade union systems. In other words, power has resided not in the document but with those who have enforced it. The lack of independent enforcement machinery makes documents such as the labor code malleable. Thus Soviet regimes have found the labor code and its supplemental legislation equally appropriate during the period of severe repression in the 1930s and 1940s as well as in the periods before and after when a less restricted labor market existed.

* Principal Current Soviet Labor Legislation, Bureau of Labor Statistics Report No. 210, United States Department of Labor, January 1962.

** Collective farmers are not covered by these laws but are subject to rules and regulations prescribed in the collective farm charter. The current charter, accepted in November 1969, replaced the charter which had been in effect since 1935.

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3. Although the basic rights and obligations in the 1922 code remained largely unchanged during these periods, those articles dealing with day-to-day employment issues -- such as wages, vacations, hours, and so forth -- underwent constant revision. These articles, therefore, became increasingly obsolete and difficult to interpret, leading to widespread illegal practices by management with subsequent negative effects on worker morale. Finally, the wholesale revision in the mid-1950s of laws pertaining to hours, wages, and fringe benefits made recodification of the labor laws necessary if the labor code was to serve as a credible piece of legislation governing work practices.

4. A draft of a revised labor code was published in October 1959, and, after a period of discussion, it was to be introduced in the Supreme Soviet for consideration and approval.* Ratification never materialized, however, and the revised code was ushered into oblivion without comment. Speculation concerning the revised code's demise centers around the draft provision dealing with the length of the workweek. In 1956 the Khrushchev regime reduced the workweek for all state workers from 48 to 46 hours and announced plans, later included in the 1959-65 Seven-Year Plan, for a further gradual reduction to 41 hours by the end of 1960. According to an official Soviet announcement, this goal was completed on schedule, with most Soviet workers on a six-day, 41-hour workweek. The draft of the revised labor code, in conjunction with Khrushchev's Seven-Year Plan, specified that an additional hour would be cut from the workweek by 1962. Following the publication of the labor code draft in late 1959, however, Soviet economists -- at a time when the rate of economic growth was falling for other reasons -- became concerned with the costliness, in terms of forgone output, of further reductions in worktime per man. Undoubtedly, this concern was reflected in the leadership's decision to shelve the scheduled reduction in worktime and, therefore, the draft of the new labor code. Instead of putting

* *Sovetskiye profsoyuzy*, 19 October 1959, p. 6-16.

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their emphasis on shortening hours of work, Soviet economists began to direct their writings more to the optimal length of the workday and the optimal scheduling of worktime. Hence, in March 1967 the nonfarm labor force of the USSR shifted from a six-day to a five-day workweek, but the length of the workweek -- 41 hours -- was maintained. The ill-fated 1959 draft received no further publicity, and codification of labor legislation lapsed until 15 July 1970 when the present all-union code was approved by the Supreme Soviet.*

The Revised Code**

5. Basic rights and obligations of workers under the new code differ little in spirit or content from the former code. More importantly, failure to provide adequate enforcement machinery again foredooms the efficacy of the code as an instrument to protect workers' rights. More than before, the code stresses both rights and obligations of workers, adding to the number of inconsistencies in the code. For example, the 1970 code "guarantees" workers the right to work, to vocational training, to safe working conditions, and to participate in the management of production. This last provision serves to illustrate one of the many inconsistencies in the code. The workers' right to participate in management is directly opposed by the longstanding Soviet insistence "... that workers be absolutely subordinated to the single will of the enterprise manager."*** The latter concept has prevailed historically and has been reaffirmed by the post-Khrushchev leadership. Moreover, the code's vague wording and failure to provide specific machinery to effect worker participation in management is likely to ensure that this right will continue to be without meaning.

* Although the 1970 revision of the labor code is an all-union decree, Union republics, within the limits fixed by Soviet legislation, are allowed to legislate regarding contingencies such as the following: additional reasons for annulling the labor contracts of certain categories of workers and salaried persons, payment of rewards for annual work results, model output standards, and a procedure for issuing special clothing and "health giving" food.

** Pravda, 17 July 1970, p. 2-4.

*** Kommunist vooruzhennykh sil, No. 18, September 1970, p. 85.

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6. Another inconsistency in the 1970 code is engendered by the guarantee that applications for employment cannot be rejected without good cause. Discrimination in hiring based on sex, race, nationality, or religious attitude is forbidden. This prohibition, which was not included in the 1922 code, was presumably added for its propaganda appeal and to discourage -- among other things -- the practice of discriminating against women. However, the new code also purports to guarantee increased benefits to women. In addition to providing almost four months of paid maternity leave, the code obligates managers to hold jobs open for nearly a year for women requesting unpaid maternity leave. Also, pregnant women and mothers with young children must be transferred to lighter work at the same pay when necessary and do not have to work at night, on holidays, or overtime. All women are prohibited, as before, from working underground or doing other arduous work. Even though regulations such as these are often ill observed, these benefits tend to raise the cost of hiring women relative to the cost of employing men. In the past, the regimes' failure to aid enterprise managers in covering these additional costs led to widespread discrimination in the hiring of women. The new code, by increasing the benefits cited in the 1922 code, may actually exacerbate rather than alleviate the situation.

7. The cost of hiring young workers is also increased by the benefits granted in the new code. The type of work young people are allowed to do is restricted, as are the permissible hours of work. Although the higher costs of employing youths has led to extensive discrimination, the 1970 code does not prohibit discrimination on the basis of age. As a result, the new code is unlikely to eliminate the anti-youth discrimination practiced in the past when alternative sources of labor were available.

8. While "guaranteeing" workers' rights, the code has been modified to facilitate implementation of the economic reform pursued since 1965. This is the basis for yet another inconsistency. By adding to management prerogatives in matters of hiring, firing, and wages, the reform has tended to diminish the rights guaranteed workers in the labor code. For example, a part of the reform is a program designed to increase output while using fewer workers.

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This scheme, known as the "Shchekino experiment," consists of ministries ordering certain enterprises to cut their work forces by specified numbers of workers while meeting higher production targets through increased efficiency. The measures of the experiment were at variance with existing provisions in the code on the right to work, grounds for dismissal, work norms, and pay adjustments. Although legal limitations proved no obstacle to ministries bent on reforms, the new code broadens the rights of managers, thus facilitating implementation of the experiment, and gives the experiment a sounder legal basis.*

9. Support of the methods used in the Shchekino experiment is given in several parts of the 1970 code. Enterprises may cancel a worker's labor contract not only in cases where the enterprise is liquidated or its workload is reduced, but also in the event that the number of workers on the official roster is reduced. In this respect, therefore, enterprise managers are granted more latitude than in the 1922 code. In addition, output norms or standards are subject to upward adjustment as technical, economic, and organizational measures designed to raise labor productivity are introduced.

10. But the code also contains provisions that are at odds with the Shchekino experiment. For example, a reduction in the size of an enterprise's roster often makes it necessary for enterprise managers to reassign at least some workers. The new code, however, prohibits the transfer of skilled workers to jobs requiring less skill, even if a work stoppage occurs or if a worker who is absent must be replaced temporarily. Other types of transfers are also limited. The code further stipulates that a worker cannot be permanently transferred to other work or to other enterprises for periods longer than one month without his consent -- although refusal to give this consent may be grounds for

* Before 1971 a number of workers dismissed under the Shchekino experiment brought suits against management for illegal dismissal. The courts ruled against the workers, illustrating the fragility of the "guarantees" in the code.

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dismissal. With the present emphasis on increasing productivity and supporting the Shchekino experiment, it seems probable that the inconsistency between workers' rights and the economic reform will be resolved in favor of the enterprise manager and not the worker.

11. In addition to establishing the basic rights and obligations of workers and managers, the code delineates the rules of employment. Although not fraught with contradictions like the basic rights and obligations, the rules of employment were, in the past, loosely written, leading to widespread confusion and discontent on the part of workers and to exploitation by managers. In 1964, for example, 30% to 35% of all dismissed workers were reportedly fired illegally. Moreover, a Soviet legal journal complained in 1966 that "... there were widespread unlawful deductions from wages and use of disciplinary actions not based on law -- fines, lowering of wage grade, etc."* The article also pointed out that apathetic prosecutors and judges caused these illegal acts to go unpunished and uncorrected.

12. The new labor code has not corrected this situation, but guidelines are provided on subjects such as:

Contents of the labor contract.

At the time of employment, each worker signs a contract specifying the job to be performed, the pay, the duration of the contract, and other conditions such as housing, training, or special clothing to be provided by the enterprise.

Worktime. Limits are established on the scheduled length of the workweek, on overtime, on youths' and women's work schedules, on hours for hazardous jobs, on the duration of night shifts, and on the scheduling of days off, rest breaks, and vacations.

* *Sotsialisticheskaya zakonnost'*, No. 3, 1966, p. 11.

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The remuneration system. Guidelines cover pay schedules, pay for overtime and for night shifts, withholdings, nonwage incentives, and penalties, including grounds for dismissal.

Labor safety and worker protection. This section includes rules for the provision of special clothing and diets as well as restrictions on the work of women and youths.

Labor disputes. Rules regarding reinstatement and pay for lost wages are covered, and procedures are established for settling disputes between workers and management.

Trade union. The "rights" and obligations of the trade union are detailed, and the state social insurance program that is administered by the trade union system is described.

13. Although in most cases these rules do not differ greatly from the former provisions, their codification serves to tidy-up the rules governing employment by bringing them together in one legislative act. However, in one case -- rules governing the conduct of workers -- there has been a discernible strengthening of the provisions in the code, consistent with the regime's current campaign to tighten discipline.

14. At the December 1969 CPSU Central Committee Plenum, Brezhnev attributed economic shortcomings in part to complacency, insufficient exercise of control at both party and government levels, abuse of official privileges, and violations of labor discipline. Accordingly, a campaign for tightened labor discipline was in evidence during 1970, beginning in February with tougher "anti-parasite" laws. The labor discipline section of the 1970 labor code is viewed as part of this campaign.

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The code stresses that the worker does not "benefit" from the rights promised to him without incurring obligations. The code stipulates that workers are obliged to observe work discipline, to care for public property, and to meet work quotas set by the state with the help of the trade unions. In addition, the 1970 all-union code -- unlike the former code -- contains a section devoted to the penalties for those who fail to observe work discipline. The following penalties are to be used: (a) reproof, (b) reprimand, (c) severe reprimand, (d) transfer to lower paid work for a period up to three months or demotion to a lower position for the same period, and (e) dismissal -- on the grounds of the worker's systematic and unjustified failure to perform his obligations or an unjustified absence.

15. In addition, the stated grounds for dismissal by the enterprise show a tightening of labor discipline. Dismissal is allowed if the worker is "incompatible" with his work, whereas the 1922 code used the word "unfit" -- a somewhat narrower concept. The grounds for dismissal listed in the new code also support the regime's efforts to curb drunkenness. A longstanding Soviet problem, drunkenness drastically affects labor productivity and is a topic of great concern. During 1970 the campaign to curb drunkenness included measures such as restricting the hours allowed for the sale of liquor and raising the prices for alcohol. Both the 1922 and 1970 codes have allowed unjustified absence as a cause for dismissal. However, the 1970 code includes a parenthetical expression explaining that unjustified absence includes "coming to work in an intoxicated condition," thus supporting the regime's anti-drunkenness campaign.

16. Another significant change in the rules is the inclusion, for the first time, of a provision for part-time employment. The encouragement of part-time work reflects primarily the regime's efforts to meet the rising need for workers in the service sector at a time when more than 90% of the working-age population already are employed or attending school on a full-time basis. Rather than adding to the total labor effort, however, this provision may result in many women partially withdrawing from the labor force. With labor force

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participation rates near their upper limit, few persons remain outside the labor force to be attracted by the possibility of part-time employment. On the other hand, with the growth of incomes and savings far outpacing the rise of goods and services during the past decade, many women may elect to give up full-time jobs in favor of part-time work and thus increase their leisure time while still escaping the pressure to hold a job.

Impact of the New Code

17. The Soviet Union is entering the 1970s with a rising concern about its manpower prospects. Shortages of skilled workers and labor in large cities have long been features of the Soviet labor scene, but articles appeared in the press beginning in 1967 concerning a general, nationwide manpower shortage. Recent articles suggest that there has been no easing of this tight labor market during 1969 and 1970. Moreover, the current situation of a generally tight labor market is likely to prevail in the foreseeable future.* Soviet plans for 1971-75 stipulate that 80% of future economic growth will come from increased labor productivity, while only 20% will be achieved by added workers to the labor force, as shown in the table. The efficacy of the new labor code, therefore, will be demonstrated in part by the degree to which the Soviet Union is able to remove the two key obstacles to improving the efficiency of labor: (a) improving the allocation of labor, and (b) raising the motivation, and thus productivity, of workers.

18. The efficient allocation of labor has been a longstanding Soviet problem, now made more important by the dwindling reserves of underemployed labor in agriculture. Moreover, the slower growth of productivity and the rapid expansion of the labor-intensive service sector aggravate the problem. The task of allocating labor is also made more difficult by greater specialization of the production process requiring a more exact placement of skilled workers and placing more emphasis on education and training. By broadening managerial prerogatives in the dismissal of workers, adjusting work norms and wages,

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Average Annual Rate of Growth of GNP and Labor in the USSR

	Percent				
	<u>1951-55</u>	<u>1956-60</u>	<u>1961-65</u>	<u>1966-70</u>	<u>1971-75 (Plan)</u>
Gross national product <u>a/</u>	6.1	5.5	5.1	5.5	6.8
Labor force	1.5	1.5	2.0	1.5	1.4
Labor productivity	4.6	4.0	3.1	4.0	5.4
Share of GNP growth attributable to increased labor productivity	75	73	61	73	80

a. GNP for the period 1951-70 is based on a Western concept of GNP. The planned growth of GNP for 1971-75 is based on a Marxist concept which excludes the value of services and overstates the contribution of industry by including all indirect taxes. Inclusion of services would probably boost the planned rate of growth of the labor force slightly.

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and, in general, facilitating the Shchekino experiment, the new labor code represents an improvement over the old code in promoting the proper allocation of labor. But these represent only procedural improvements. Managers still do not have incentives to operate with the most efficient use of labor. Moreover, the code does not solve the problems of the subsequently dismissed workers. Separated workers are without jobs on the average for 24 days, yet until 1967 there were no labor exchanges to help these workers find employment. Even now these exchanges are found only in some of the larger cities, and their effectiveness is questionable. In 1968, for example, labor exchanges helped to relocate less than 5% of the workers separated from jobs. Therefore, although the efficient allocation of labor is becoming an increasingly crucial problem, the 1970 labor code represents only a partial answer.

19. Perhaps more important than improving the allocation of labor, the Soviet Union must raise the motivation and hence productivity, of workers if it is to meet the current five-year plan goals. The present low motivation is evidenced, in part, by the fact that the labor force in the USSR is 50% larger than that in the United States but produces only about one-half the amount of goods and services. In the past, both increased incentives and stronger discipline have been applied in an attempt to improve the performance of Soviet workers. Neither method has overcome the apathy and cynicism characteristic of the Soviet labor force. The shortage of workers and availability of jobs have largely made ineffective both labor discipline measures and threats of dismissal. And, too, the inability or unwillingness of the regime to match rising wages with commensurate consumer goods and services has largely nullified the incentive aspect of higher earnings. A partly analogous situation is found in the US auto industry, where, despite relatively high pay, young auto workers find job discipline harsh and uninspiring. Subsequently, they vent their feelings through absenteeism, high turnover, shoddy work, and even sabotage.*

* Judson Gooding, "Blue Collar Blues on the Assembly Line", *Fortune*, July 1970.

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20. Managers in the United States have found that under these conditions the answer to the problem of worker motivation lies in giving workers greater responsibility, providing jobs with creative outlet, and demonstrating concern for the worker's welfare as well as his output. By failing to incorporate into the new labor code measures that would improve the lot of workers, the regime may have only enhanced the feeling of estrangement prevailing in the Soviet labor force.

Conclusions

21. On 1 January 1971 a new, all-union labor code -- the basic law regulating conditions in the labor market -- came into effect in the Soviet Union. The previous code had survived since 1922 but had become increasingly obsolete. The new code represents the latest Soviet effort to provide a juridical setting for improving the efficiency of labor. However, like other recent labor reforms, such as the Shchekino experiment, the new labor code is more of a change in form than in substance, emphasizing procedural modifications rather than fundamental changes in the operation of the labor market.

22. The former code not only contained specific workers' rights but also cited detailed obligations. The incompatibility of these provisions created contradictions -- for example, workers were to participate in management, but the dominant authority of the manager could not be questioned. The workers' obligations were used by subsequent regimes to effect absolute control over the labor force and to impose centrally determined priorities irrespective of popular choice. Moreover, workers' rights, although specifically defined, were virtually meaningless because of the lack of independent judiciary and trade union systems. The provisions in the new code differ little in spirit or content from those in the former code. Moreover, contradictions between workers' rights and obligations still exist and are even more prevalent. For example, increased managerial rights in the disposition of the enterprise's work force conflict with strengthened provisions in the new code limiting job transfers. More importantly perhaps, the new code's failure to

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provide adequate enforcement machinery again foredooms the efficacy of the code as an instrument to protect workers' rights.

23. Besides establishing these rights and obligations, the code delineates rules of employment -- labor contracts, worktime, remuneration, labor safety, and labor disputes. In the past the rules were loosely written and resulted in widespread confusion and discontent among workers and illegal practices by managers. Although the new code fails to correct the former ambiguities caused by the lack of precise wording, the current recodification serves to tidy-up somewhat the rules governing employment by bringing them together in one legislative act.

24. Soviet plans for 1971-75 stipulate that 80% of future economic growth will come from increased labor productivity. The efficacy of the new code, therefore, will be partly demonstrated by the degree to which it promotes labor efficiency. By broadening managerial prerogatives in the dismissal of workers, adjusting work norms and wages, and, in general, facilitating the Shchekino experiment, the new labor code represents an improvement over the old code in promoting the proper allocation of labor. But since managers still do not have incentives to operate with a more efficient use of labor, the new authority provided in the code lacks operational content. In addition, the code fails to remove the inequities that have led to a labor force characterized by cynicism and a lack of motivation.

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